Service-Dominant Logic: A Forward Look

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The Message

Innovative economies/firms are apparently transitioning:

- From manufacturing economy to "services" economy
- From goods-oriented firms to "services" firms

The transitions are understated and inadequate

- reflect a flawed logic (mental model) of economies & markets

Real, radical innovation requires a more radical transformation in the logic of the role of service

- One that is emerging from diverse practices and academics of business
The Importance of the Right Logic

- Without changing our pattern of thought, we will not be able to solve the problems we created with our current pattern of thought
  - Albert Einstein

- The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday’s logic.
  - Peter F. Drucker

- The main power base of paradigms may be in the fact that they are taken for granted and not explicitly questioned
  - Johan Arndt

- What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process creating utility.
  - Wroe Alderson
From Arm-Flapping to Airfoil Logic
FOUNDATIONS: GOODS-DOMINANT (ARM FLAPPING) LOGIC
Goods-dominant (G-D) Logic

- Purpose of economic activity is to make and distribute units of output, preferably tangible (i.e., goods)
- Goods are embedded with utility (value) during manufacturing
- Goal is to maximize profit through the efficient production and distribution of goods
  - goods should be standardized, produced away from the market, and inventoried till demanded

Firms exist to (efficiently) make and sell value-laden goods
G-D Logic Model: Value Production and Consumption
Wrong Thinking about Service(s): The G-D Logic Perspective

Value-enhancing add-ons for goods, or

A particular (somewhat inferior) type good, characterized by (IHIP):

- Intangibility
- Heterogeneity (non-standardization)
- Inseparability (of production and consumption)
- Perishability

Services Economy = Post Industrial = Less-than-desirable economic activity
The G-D Logic Source of the “New” Service(s) Economy

- G-D logic classification
- Increasing division of labor
- Outsourcing
- Apparent New Service Economy
Problems with Goods Logic

Goods are not why we buy goods

- Service (benefits) they render
- Intangibles (brand, self image, social connectedness, meaning)
- Inputs into experiences (holistic outcomes)

Goods are not what we fundamentally “own” to exchange with others

- Applied knowledge and skills (our services)

Customer is secondary and seen as value receiver and destroyer

- “Consumer orientation” is an add-on--does not help

“Services” (IHIP) characteristics do not distinguish services vs. goods

- But they do characterize value and value creation
THE G-D LOGIC PROBLEMS "FIXES"
G-D Logic: The “Consumer Orientation” Fix

The Consumer Orientation is Inherently Producer Centric
G-D Logic: The “Relationship” Fix

Producer transaction Consumer
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S-D Logic

G-D Logic

Relationship

Time
The Inadvertent Route to G-D Logic

Smith’s Model of Economic Exchange
- Division of labor (specialized knowledge & skills)
- Value-in-use (real value)

Smith’s Focus on National Wealth Creation
- Value-in-exchange (nominal value)
- Productive = “labor” contributing to surplus exportable, tangible goods

Economic Science
- “Utility” as a property of goods (exchange value)
- Newtonian model of science = matter embedded with properties
- Producer-consumer distinction

Neoclassical economics
- The science of exchange of things (products), embedded with properties (“utiles”)
- Foundation for all business disciplines
FOUNDATIONS: THE S-D LOGIC CORE
A Partial Pedigree For S-D Logic

- Services and Relationship Marketing
  - e.g., Shostack (1977); Berry (1983); Gummesson (1994); Gronroos (1994); etc.
- Theory of the firm
  - Penrose (1959)
- Core Competency Theory
  - (Prahalad and Hamel (1990); Day 1994)
- Resource-Advantage Theory and Resource-Management Strategies
- Network Theory
  - (Hakansson and Snehota 1995)
- Interpretive research and Consumer Culture theory
  - (Arnould and Thompson 2005)
- Experience marketing
  - (Prahalad and Ramaswamy 2000)
An Extended Pedigree for S-D Logic

- Social Network Theory
  - e.g., Giddens (1984); Granovetter (1973)
- New Institutional Economics
  - North (2005); Menard (1995)
- Human Ecology
  - e.g., Hawley (1986);
- Business Ecosystems
  - Insiti and Levien (2004)
- Stakeholder Theory
  - Donaldson and Preston (1995)
- Service Science
  - e.g., Spohrer and Maglio (2008)
- Market Practices and Performances
  - Araujo (2008), Kjellberg and Helgesson (2008)
Marketing with integrity: ethics and the service-dominant logic for marketing

Quality, service-dominant logic and marketing

Abstract
Purpose: The purpose of this paper is to examine the use of service-dominant logic in service marketing research and practice.

Findings: The study reveals that service-dominant logic has been widely adopted in service marketing research and practice in recent years.

Research limitations/implications: The study suggests that further research is needed to explore the potential of service-dominant logic in service marketing research and practice.

Originality/value: The study contributes to the literature on service-dominant logic and service marketing research and practice.

Keywords: Quality, Service-Dominant Logic, Service Marketing

Introduction
This chapter addresses the role of service-dominant logic in service marketing. It provides an overview of the theory, its applications, and implications for practitioners.

Service, services and products: rethinking operations strategy

Outcome-based contracts as a driver for systems thinking and service-dominant logic in service science: Evidence from the defence industry

A Service-Dominant Logic for Management Education: It's Time

Service-Dominant Logic - Exposing CPA Australia's K-Strategy

Service-Dominant (SD) logic is an important new mindset in business. This fundamental shift in the way organizations, markets, and society are fundamentally concerned with exchange and value creation where the service is the expression of core competencies and knowledge, and not merely the process of a product. Thus, service is exchanged for all forms of good, and needs, wants and desires are satisfied.

The fundamental difference between the more traditional Costocentric view with SD logic is that SD logic embraces value creation and management of value, and not merely the exchange and distribution concept of value.
## Core Foundational Premises of Service-Dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tbody>
<tr>
<td>FP1  Service</td>
<td>The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. Service is exchanged for service.</td>
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<td>FP6  Customer</td>
<td>Implies value creation is interactional.</td>
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<td>FP9  Economic</td>
<td>Implies the context of value creation is networks of networks (resource-integrators).</td>
</tr>
<tr>
<td>FP10 Value</td>
<td>Value is idiosyncratic, experiential, contextual, and meaning laden.</td>
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</tbody>
</table>
FP1: Service is the basis of exchange
- Operant Resources (knowledge and skills) are the fundamental source of competitive advantage (FP4)
- All economies are service economies (FP5)

FP6: The customer is always a co-creator of value
- The firm cannot deliver value but only offer value propositions (FP7)
- Goods are distribution mechanisms for service provision (FP3)
FP9: All economic and social actors are resource integrators

- Indirect service masks the fundamental nature of exchange (FP2)

FP10: Value is always uniquely and phenomenologically determined by the beneficiary

- A service-centered view is inherently customer oriented and relational (FP8)
Clarifications: Service vs. Services

- **Services** = intangible products
- **Service** = The *process* of using one’s competences for the benefit of some party
  - The application of knowledge and skills
- **Service** *transcends* “goods and ‘services’”

There are No “Services” in Service-Dominant Logic
Value Co-creation through Resource Integration & Service Exchange

Resource Integrator (individual, family, firm, etc.)

- Market-facing Resource Integrators
- Private Resource Integrators
- Public Resource Integrators

Services:
- Economic Currency
- Social Currency
- Public Currency

New Resources
Value

S-D Logic
From Product (Output) to Value (Outcome) & Experiences

Value = Benefit (beneficiary specific) = increase in the viability of the system

Evaluation = Perception of benefit

Co-production is relatively optional.

Value is always co-created
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

Customer

Firm

Actor Centricity = Resource Integrators
“It's all B2B...” – A2A (Actor to Actor)

From a G-D logic, perspective

- (B2C, producer to consumer)
- Consumer centricity is inherently firm (producer) centric

From a S-D logic perspective

- All actors are, resource-integrating, service-providing enterprises (B2B or A2A)
- Resources & value creation must be understood, contextually, co-creatively, and (service-eco)systemically
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
From the Individual to Market-Based

Source: Ridley 2010
Resource Integration & Service-for-service Exchange within the Market System

Resource Integrators

Institutions

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
Systems of Systems

Service Eco-system (S-D Logic)

- relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange.

“The battle of devices has now become a war of ecosystems... developers, applications, ecommerce, advertising, search, social applications, location-based services, [etc.].”

“Our competitors aren’t taking our market share with devices; they are taking our market share with an entire ecosystem.”

Nokia CEO Elop’s Burning Platform Memo
Resource Integration & and the Structuration of Service Ecosystems

Micro

Meso

Macro

Resource Integrators

Institutions
REORIENTATIONS
Markets: Shared or (Co)Created

The MP3-Player Market
Or
The customizable-entertainment-storage-organizer-and-personal-assistant-and-life-applications-with-a-WOW-factor-platform market

The mineral-oil market
Or
The baby-butt-rash-avoidance-mommy-guilt-reducing-body-massage-and-sexual-lubricant market

The sodium-bicarbonate market
Or
The occasional-baking-But-primarily-refrigerator-freshening-teeth-cleaning-clothes-brightening market
Issues for a Theory of the Market

- There are no (a priori) markets
  - There are just micro-level, service exchanges
    - gifts, generalized reciprocity, service-for-service

- There is a Market (Market System):
  - transitory, linked, contextual configurations of resources and exchanges

- ...and yet markets can “exist”
  - They can:
    - Be envisioned -- images of service potential
    - become institutionalized -- Intersubjective realities

- Thus, markets become performed within the Market
  - They exist because we act like they do
  - “Markets are functions of marketing” (and other business practices)
A Market as an Institutionalized Solutions

Resource Application (service)

Inter-subjective Agreement

Human Problem

Institutionalized Solution = A Market

Market performativity
Perspectives on Innovation

Goods Innovation
- Making better output (goods)
- New technology
- Efficient processes
- Decreasing returns to scale
- Purpose: increase market share

“Services” Innovation
- Making better output (“services”)
- Apply goods innovation principles, adjusted for “IHIP” deficiencies

Service Innovation
- Providing input into customers’/actors’ value-creation processes
- Link firm-available resources to peoples purposes
- Effective solutions
- Increasing returns to scale
- Purpose: “Owning” the market -- market shaping
Innovation Meets Marketing

Business has two basic functions:
Innovation & Marketing

In S-D logic, these become intertwined, if not indistinguishable

True innovation is not the making of novel units of output but the designing and creating of new markets through service provision

Peter Drucker
Effectuation Theory

Marketing Under Uncertainty: The Logic of an Effectual Approach

C

Expanding cycle of resources

Converging cycle of constraints

New means
New ends

Who I am
What I know
Whom I know

What can I do?

Interactions with other people

Effectual stakeholder commitment

Actual courses of action possible

Actual Means

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Innovation as Design Thinking

"Design thinking is an approach that uses the designer’s sensibility and methods for problem solving to meet people’s needs in a technologically feasible and commercially viable way. In other words, design thinking is human-centered innovation.” —Tim Brown
Rethinking. Reframing, and Reconciliation from an S-D Logic Perspective

- **Markets**
  - From a priori to imagined, emergent, and created

- **Market-ing**
  - From functional area to essential function of the firm

- **Innovation**
  - From invention to designing systems for value co-creation

- **Strategy**
  - From prediction and control to effectuation

- **Technology**
  - From exogenous variable to service-provision mechanism

- **Role of Information Technology**
  - From tool to a transformation in value creation
Co-creation Through Social Connectivity: Facilitation of Resource Integration
Outcome-Based Pricing/Performance Contracting: Service for Sale

BAE SYSTEMS

John Deere

Rolls Royce

Power By The Hour
Co-production

S-D Logic

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Ecosystems Architecture
“Fabless” (Contract Manufacturing) Firms

TOP 10 FABLESS SEMICONDUCTOR FIRMS: $27.3 (2008)
Qualcomm (QCT Division): $1.8B
Broadcom: $1.2B
NVIDIA: $892.7M
Marvell Technology Group: $842.6M
SanDisk: $816.0M
LSI: $692.1M
MediaTek: $543.6M
Xilinx: $488.2M
Avago Technologies: $439.0M
Altera: $359.9M
Cost of Light in Hours Worked: Increasing Returns to Scale
Growth in Prosperity through the Co-creation of Value
Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:
  - Working papers
  - Teaching material
  - Related Links

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